

CITY OF OMER
Arenac County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Omer	County Arenac
Audit Date March 31, 2006	Opinion Date May 26, 2006	Date Accountant Report Submitted to State: May 26, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act:
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

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Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

CITY OF OMER
Arenac County, Michigan

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Arenac County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

May 26, 2006

To the City Council
City of Omer
Arenac County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of City of Omer, Arenac County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Omer's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the City of Omer, Arenac County, Michigan as of March 31, 2006, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 26, 2006, on our consideration of the City's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the City's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

CITY OF OMER
Arenac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended March 31, 2006

The Management's Discussion and Analysis report of the City of Omer covers the City's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$449,679.04 for governmental activities and \$383,752.03 for business activities. Overall total capital assets remained approximately the same.

Overall revenues were \$212,796.19 from governmental activities and \$87,838.78 from business-type activities. Governmental activities had a \$8,345.26 decrease in net assets. Business-type activities had an increase in net assets of \$5,234.46.

Taxable value increased by approximately \$279,441.00.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the City and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the City in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the City as a whole using accounting methods used by private companies. The statement of net assets includes all of the City's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the City are reported as governmental activities and business-type activities. These include the General Fund, Major Street Fund, Local Street Fund, Services Fund, Water Fund and the Current Tax Collection Fund.

CITY OF OMER
Arenac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the City's funds, focusing on significant (major) funds not the City as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The City Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The City has the following types of funds:

Governmental Funds: Some of the City's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the City's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The City's governmental funds include the General Fund, Major Street Fund, Local Street Fund, and the Services Fund.

Business-Type Funds: The City has a Water Fund which includes the activity of providing water to City residents.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Our cash position in both the governmental and business-type activities remains strong.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The General Fund had an increase in fund balance of \$12,285.73. The Major Street Fund had a decrease in fund balance of \$1,672.09. The Local Street Fund had an increase in fund balance of \$7,120.24. The Services Fund had a decrease in fund balance of \$1,740.87.

The Water Fund had an increase in net assets of \$5,234.46.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The City's governmental activities invested \$14,385.00 in capital assets.

The City's business-type activities invested \$84,416.53 in capital assets.

The City's governmental activities paid \$3,760.35 of principal on long-term debt and obtained loan proceeds of \$36,545.12.

The City's business-type activities paid \$0 of principal on long-term debt and obtained bond proceeds of \$74,000.00.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE CITY'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the City's finances and to demonstrate the City's accountability for the revenues it receives. If you have any questions concerning this report please contact the City Clerk or City Treasurer at 989-653-2566.

CITY OF OMER
Arenac County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	276 364 47	78 793 00	355 157 47
Taxes receivable	11 123 49	-	11 123 49
Accounts receivable	-	2 319 75	2 319 75
Due from State of Michigan	<u>6 058 35</u>	<u>-</u>	<u>6 058 35</u>
Total Current Assets	<u>293 546 31</u>	<u>81 112 75</u>	<u>374 659 06</u>
NON-CURRENT ASSETS:			
Capital Assets	237 821 00	937 407 03	1 175 228 03
Less: Accumulated Depreciation	<u>(48 903 50)</u>	<u>(211 994 56)</u>	<u>(260 898 06)</u>
Total Non-current Assets	<u>188 917 50</u>	<u>725 412 47</u>	<u>914 329 97</u>
TOTAL ASSETS	<u><u>482 463 81</u></u>	<u><u>806 525 22</u></u>	<u><u>1 288 989 03</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	<u>-</u>	<u>16 773 19</u>	<u>16 773 19</u>
Total Current Liabilities	<u>-</u>	<u>16 773 19</u>	<u>16 773 19</u>
NON-CURRENT LIABILITIES:			
Loans payable	9 470 60	-	9 470 60
Bonds payable	-	406 000 00	406 000 00
Judgment payable	<u>23 314 17</u>	<u>-</u>	<u>23 314 17</u>
Total Non-current Liabilities	<u>32 784 77</u>	<u>406 000 00</u>	<u>438 784 77</u>
Total Liabilities	<u>32 784 77</u>	<u>422 773 19</u>	<u>455 557 96</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	179 446 90	319 412 47	498 859 37
Unrestricted	<u>270 232 14</u>	<u>64 339 56</u>	<u>334 571 70</u>
Total Net Assets	<u>449 679 04</u>	<u>383 752 03</u>	<u>833 431 07</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>482 463 81</u></u>	<u><u>806 525 22</u></u>	<u><u>1 288 989 03</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OMER
Arenac County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
General government	134 153 58	18 794 75	(115 358 83)
Public safety	13 948 00	-	(13 948 00)
Public works	<u>66 039 87</u>	<u>14 725 00</u>	<u>(51 314 87)</u>
Total Governmental Activities	<u>214 141 45</u>	<u>33 519 75</u>	<u>(180 621 70)</u>
Business-Type Activities:			
Water	67 663 94	75 989 97	-
Interest on long-term debt	<u>14 940 38</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities	<u>82 604 32</u>	<u>75 989 97</u>	<u>-</u>
Total Government	<u><u>296 745 77</u></u>	<u><u>109 509 72</u></u>	<u><u>(180 621 70)</u></u>
General Revenues:			
Property taxes			59 199 20
State revenue sharing			73 023 13
Interest			2 639 95
Miscellaneous			44 414 16
Transfers			<u>(7 000 00)</u>
Total General Revenues			<u>172 276 44</u>
Change in net assets			(8 345 26)
Net assets, beginning of year			<u>458 024 30</u>
Net Assets, End of Year			<u><u>449 679 04</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Business-Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
-	(115 358 83)
-	(13 948 00)
-	(51 314 87)
-	(180 621 70)
8 326 03	8 326 03
(14 940 38)	(14 940 38)
(6 614 35)	(6 614 35)
(6 614 35)	(187 236 05)
-	59 199 20
-	73 023 13
848 81	3 488 76
4 000 00	48 414 16
7 000 00	-
11 848 81	184 125 25
5 234 46	(3 110 80)
378 517 57	836 541 87
<u>383 752 03</u>	<u>833 431 07</u>

CITY OF OMER
Arenac County, Michigan

BALANCE SHEET -- GOVERNMENTAL FUNDS
March 31, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Funds</u>
<u>Assets</u>				
Cash in bank	165 850 76	56 962 22	37 217 23	15 138 04
Taxes receivable	8 558 49	-	-	2 565 00
Due from State of Michigan	-	3 686 92	2 371 43	-
Due from other funds	<u>1 196 22</u>	<u>-</u>	<u>921 73</u>	<u>-</u>
Total Assets	<u>175 605 47</u>	<u>60 649 14</u>	<u>40 510 39</u>	<u>17 703 04</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	<u>-</u>	<u>921 73</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>921 73</u>	<u>-</u>	<u>-</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>175 605 47</u>	<u>59 727 41</u>	<u>40 510 39</u>	<u>17 703 04</u>
Total fund equity	<u>175 605 47</u>	<u>59 727 41</u>	<u>40 510 39</u>	<u>17 703 04</u>
Total Liabilities and Fund Equity	<u>175 605 47</u>	<u>60 649 14</u>	<u>40 510 39</u>	<u>17 703 04</u>

The accompanying notes are an integral part of these financial statements.

Total

275 168 25
11 123 49
6 058 35
2 117 95

294 468 04

921 73

921 73

293 546 31

293 546 31

294 468 04

CITY OF OMER
Arenac County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	293 546 31
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	237 821 00
Accumulated depreciation	(48 903 50)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Loan payable	(9 470 60)
Judgment payable	<u>(23 314 17)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>449 679 04</u>

The accompanying notes are an integral part of these financial statements.

CITY OF OMER
Arenac County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS
Year ended March 31, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Funds</u>
Revenues:				
Property taxes	59 199 20	-	-	-
State revenue sharing	39 972 73	20 112 71	12 937 69	-
Charges for services:				
PTAF	1 998 54	-	-	-
Other	16 796 21	-	-	-
Interest	2 087 95	304 61	167 03	80 36
Special assessments	-	-	-	14 725 00
Miscellaneous	<u>43 505 35</u>	<u>-</u>	<u>908 81</u>	<u>-</u>
Total revenues	<u>163 559 98</u>	<u>20 417 32</u>	<u>14 013 53</u>	<u>14 805 36</u>
Expenditures:				
General government	131 425 08	-	-	-
Public safety	13 948 00	-	-	-
Public works	17 300 94	17 061 24	11 921 46	16 546 23
Capital outlay	14 385 00	-	-	-
Debt service	<u>3 760 35</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>180 819 37</u>	<u>17 061 24</u>	<u>11 921 46</u>	<u>16 546 23</u>
Excess (deficiency) of revenues over expenditures	<u>(17 259 39)</u>	<u>3 356 08</u>	<u>2 092 07</u>	<u>(1 740 87)</u>
Other financing sources (uses):				
Loan proceeds	36 545 12	-	-	-
Operating transfers in	-	-	5 028 17	-
Operating transfers out	<u>(7 000 00)</u>	<u>(5 028 17)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>29 545 12</u>	<u>(5 028 17)</u>	<u>5 028 17</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	12 285 73	(1 672 09)	7 120 24	(1 740 87)
Fund balances, April 1	<u>163 319 74</u>	<u>61 399 50</u>	<u>33 390 15</u>	<u>19 443 91</u>
Fund Balances, March 31	<u><u>175 605 47</u></u>	<u><u>59 727 41</u></u>	<u><u>40 510 39</u></u>	<u><u>17 703 04</u></u>

The accompanying notes are an integral part of these financial statements.

Total

59 199 20
73 023 13

1 998 54
16 796 21
2 639 95
14 725 00
44 414 16

212 796 19

131 425 08
13 948 00
62 829 87
14 385 00
3 760 35

226 348 30

(13 552 11)

36 545 12
5 028 17
(12 028 17)
29 545 12

15 993 01

277 553 30

293 546 31

CITY OF OMER
Arenac County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 15 993 01

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(5 938 50)
Capital Outlay	14 385 00

Repayment of debt principal is an expenditure in the governmental funds, the repayment
does not have an effect in the statement of activities but does reduce the debt balance
in the statement of net assets

Principal payments on long-term debt	3 760 35
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Loan proceeds provide current financial resources to governmental funds but issuing debt
increases long-term liabilities in the statement of net assets

Loan proceeds	<u>(36 545 12)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>(8 345 26)</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF OMER
Arenac County, Michigan

STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS
March 31, 2006

	<u>Total (Water)</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	78 793 00
Accounts receivable	<u>2 319 75</u>
Total Current Assets	<u>81 112 75</u>
NON-CURRENT ASSETS:	
Capital Assets	937 407 03
Less: Accumulated Depreciation	<u>(211 994 56)</u>
Total Non-current Assets	<u>725 412 47</u>
TOTAL ASSETS	<u><u>806 525 22</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>16 773 19</u>
Total Current Liabilities	<u>16 773 19</u>
NON-CURRENT LIABILITIES:	
Bonds payable	<u>406 000 00</u>
Total Non-current Liabilities	<u>406 000 00</u>
Total Liabilities	<u>422 773 19</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	319 412 47
Unrestricted	<u>64 339 56</u>
Total Net Assets	<u>383 752 03</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>806 525 22</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OMER
Arenac County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUSINESS-TYPE FUNDS
Year ended March 31, 2006

	<u>Total (Water)</u>
OPERATING REVENUES:	
Charges for services	61 481 75
Miscellaneous	<u>14 508 22</u>
Total Operating Revenues	<u>75 989 97</u>
OPERATING EXPENSES:	
Wages	14 734 57
Benefits	1 127 19
Supplies	4 243 53
Water purchases	7 211 89
Insurance	309 60
Utilities	6 216 92
Repairs and maintenance	7 138 20
Miscellaneous	<u>9 724 69</u>
Total Operating Expenses	<u>50 706 59</u>
Operating Income (loss) before depreciation	25 283 38
Less: depreciation	<u>(16 957 35)</u>
Operating income (loss)	<u>8 326 03</u>
NON-OPERATING REVENUES (EXPENSES):	
Capital grant	4 000 00
Interest income	848 81
Transfers in	7 000 00
Interest expense	<u>(14 940 38)</u>
Total Non-operating Expenses	<u>(3 091 57)</u>
Change in net assets	5 234 46
Net assets, beginning of year	<u>378 517 57</u>
Net Assets, End of Year	<u><u>383 752 03</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OMER
Arenac County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS-TYPE FUNDS
Year ended March 31, 2006

	<u>Total (Water)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	77 432 67
Cash payments to suppliers for goods and services	(28 328 18)
Cash payments to employees for services	<u>(14 508 22)</u>
Net cash provided (used) by operating activities	<u>34 596 27</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Additions to capital assets	(84 416 53)
Capital grant proceeds	4 000 00
Bond proceeds	74 000 00
Principal paid on bonds	-
Interest paid on bonds	<u>(14 940 38)</u>
Net cash provided (used) by capital and related financing activities	<u>(21 356 91)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Transfers from other funds	<u>7 000 00</u>
Net cash provided (used) by non-capital and related financing activities	<u>7 000 00</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	<u>848 81</u>
Net cash provided (used) by investing activities	<u>848 81</u>
Net increase in cash	21 088 17
Cash beginning of year	<u>57 704 83</u>
Cash End of Year	<u><u>78 793 00</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Income (loss) from operations	8 326 03
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	16 957 35
(Increase) decrease in receivables	1 442 70
Increase (decrease) in payables	<u>7 870 19</u>
Net Cash Provided (Used) in Operating Activities	<u><u>34 596 27</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the City of Omer, Arenac County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the City contain all the City funds that are controlled by or dependent on the City's executive or legislative branches.

The reporting entity is the City of Omer. The City is governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the City as the primary government.

Joint Venture

The City is a member of the Omer-Arenac Fire Board. The City appoints two members to the joint venture's governing board, which then approves the annual budget. Financial information of the joint venture may be obtained from the Fire Board at 2234 Sterling Road in Omer, Michigan.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business-type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

This fund is used to account for assets held as an agent for others.

Proprietary Fund

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the City. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on February 14. The 2005 tax roll millage rate was 12.9497 and the taxable value was \$4,571,589.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the City as assets with an initial cost of more than \$2,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	10-25 years
Furniture and equipment	5-10 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The City provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the City Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the City Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the City Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the City Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City Council has designated three banks for the deposit of City funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The City's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>336 580 21</u>

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	119 720 80
Uninsured and Uncollateralized	<u>272 673 44</u>
Total Deposits	<u><u>392 394 24</u></u>

The City of Omer did not have any investments as of March 31, 2006.

Note 4 – Capital Assets

Capital asset activity of the City's Governmental and Business-Type activities for the current year was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
<u>Governmental Activities:</u>				
Land	161 500 00	-	-	161 500 00
Buildings	38 836 00	-	-	38 836 00
Equipment	<u>23 100 00</u>	<u>14 385 00</u>	<u>-</u>	<u>37 485 00</u>
Total	223 436 00	14 385 00	-	237 821 00
Accumulated Depreciation	<u>(42 965 00)</u>	<u>(5 938 50)</u>	<u>-</u>	<u>(48 903 50)</u>
Net Governmental Capital Assets	<u><u>180 471 00</u></u>	<u><u>8 446 50</u></u>	<u><u>-</u></u>	<u><u>188 917 50</u></u>
<u>Business-Type Activities:</u>				
Water Systems	852 990 50	84 416 53	-	937 407 03
Accumulated Depreciation	<u>(195 037 21)</u>	<u>(16 957 35)</u>	<u>-</u>	<u>(211 994 56)</u>
Net Business-Type Capital Assets	<u><u>657 953 29</u></u>	<u><u>67 459 18</u></u>	<u><u>-</u></u>	<u><u>725 412 47</u></u>

Note 5 – Deferred Compensation Plan

The City does not have a deferred compensation plan.

Note 6 – Pension Plan

The City does not have a pension plan.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 7 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/06</u>
Water bonds payable	332 000 00	74 000 00	-	406 000 00
Judgment payable	-	27 074 52	3 760 35	23 314 17
Loan payable – pickup	-	9 470 60	-	9 470 60
Total	<u>332 000 00</u>	<u>110 545 12</u>	<u>3 760 35</u>	<u>438 784 77</u>

Note 8 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	1 196 22	Current Tax Collection	1 196 22
Local Street	<u>921 73</u>	Major Street	<u>921 73</u>
Total	<u>2 117 95</u>	Total	<u>2 117 95</u>

Note 9 – Water Revenue Bonds – 1997

On March 12, 1997, the City sold water revenue bonds, series A in the amount of \$277,000.00 and series B in the amount of \$90,000.00. The bond proceeds were used to partially pay for improvements to the water system. The bonds which bear interest at the rate of 4.5% per annum are recorded in the Water Fund. As of March 31, 2006, the principal balance of the bonds outstanding was \$332,000.00.

<u>Due April 1</u>	<u>Principal Amount</u>
2006	5 000 00
2007	5 000 00
2008	5 000 00
2009	5 000 00
2010	7 000 00
2011	7 000 00
2012	7 000 00
2013	7 000 00
2014	7 000 00
2015	8 000 00
2016	8 000 00
2017	8 000 00
2018	8 000 00
2019	9 000 00
2020	9 000 00
2021	9 000 00
2022	11 000 00

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 9 – Water Revenue Bonds- 1997 (continued)

<u>Due April 1</u>	<u>Principal Amount</u>
2023	11 000 00
2024	11 000 00
2025	12 000 00
2026	12 000 00
2027	12 000 00
2028	13 000 00
2029	14 000 00
2030	16 000 00
2031	16 000 00
2032	17 000 00
2033	17 000 00
2034	18 000 00
2035	19 000 00
2036	19 000 00
Total	<u>332 000 00</u>

Note 10 – Water Revenue Bonds – 2006

On February 28, 2006, the City sold water revenue bonds, series A in the amount of \$86,000.00 and series B in the amount of \$30,000.00. The bond proceeds were used to partially pay for improvements to the water system. The bonds which bear interest at the rate of 4.25% and 4.50% respectively, per annum and are recorded in the Water Fund. As of March 31, 2006, the principal balance of the bonds outstanding was \$74,000.00.

<u>Due April 1</u>	<u>Principal Amount</u>
2006	1 250 00
2007	1 250 00
2008	1 250 00
2009	1 250 00
2010	1 250 00
2011	1 250 00
2012	1 250 00
2013	1 250 00
2014	1 250 00
2015	1 500 00
2016	1 500 00
2017	1 500 00
2018	1 500 00
2019	1 500 00
2020	2 500 00
2021	2 500 00
2022	2 500 00
2023	2 500 00
2024	2 500 00
2025	2 500 00

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 10 – Water Revenue Bonds – 2006 (continued)

<u>Due April 1</u>	<u>Principal Amount</u>
2026	2 750 00
2027	2 750 00
2028	2 750 00
2029	2 750 00
2030	2 750 00
2031	3 000 00
2032	4 000 00
2033	4 000 00
2034	4 000 00
2035	4 000 00
2036	4 000 00
2037	4 000 00
2038	4 250 00
2039	4 250 00
2040	5 250 00
2041	5 250 00
2042	5 500 00
2043	5 500 00
2044	5 500 00
2045	6 000 00
Total	<u>116 000 00</u>

Note 11 – Loan Payable – Pickup

On September 13, 2005, the City obtained a loan in the amount of \$9,470.60 to fund the purchase of a pickup. The loan requires 3 annual payments of \$3,457.59, including interest at the rate of 4.625% per annum. As of March 31, 2006, the outstanding principal balance was \$9,470.60.

Note 12 – Judgment Payable

On August 23, 2005, a judgment was made against the City in the amount of \$27,074.52. The judgment requires 36 monthly payments of \$752.07. As of March 31, 2006, the outstanding principal balance was \$23,314.17.

Note 13 – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The City has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 14 – Building Permits

The City of Omer does not issue building permits. Building permits are issued by the County of Arenac.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 15 – Interfund Transfers

The amounts of interfund transfers are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Water	7 000 00	General	7 000 00
Local Street	<u>5 028 17</u>	Major Street	<u>5 028 17</u>
Total	<u>12 028 17</u>	Total	<u>12 028 17</u>

Note 16 – Budget Variances

During the fiscal year ended March 31, 2006, City expenditures exceeded the budgeted amounts in the activities as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
General Fund Activity:			
General government	123 420 00	131 425 08	8 005 08
Public safety	7 500 00	13 948 00	6 448 00
Public works	15 960 00	17 300 94	1 340 94
Capital outlay	1 000 00	14 385 00	13 385 00
Debt service	-	3 760 35	3 760 35

CITY OF OMER
Arenac County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	56 837 00	56 837 00	59 199 20	2 362 20
State revenue sharing	30 000 00	30 000 00	39 972 73	9 972 73
Charges for services:				
PTAF	1 895 00	1 895 00	1 998 54	103 54
Other	120 00	120 00	16 796 21	16 676 21
Interest	1 102 00	1 102 00	2 087 95	985 95
Miscellaneous	16 975 00	16 975 00	43 505 35	26 530 35
Total revenues	106 929 00	106 929 00	163 559 98	56 630 98
Expenditures:				
General government	123 420 00	123 420 00	131 425 08	8 005 08
Public safety	7 500 00	7 500 00	13 948 00	6 448 00
Public works	15 960 00	15 960 00	17 300 94	1 340 94
Capital outlay	1 000 00	1 000 00	14 385 00	13 385 00
Debt service	-	-	3 760 35	3 760 35
Total expenditures	147 880 00	147 880 00	180 819 37	32 939 37
Excess (deficiency) of revenues over expenditures	(40 951 00)	(40 951 00)	(17 259 39)	23 691 61
Other financing sources (uses):				
Loan proceeds	-	-	36 545 12	36 545 12
Operating transfers out	-	-	(7 000 00)	(7 000 00)
Total other financing sources (uses)	-	-	29 545 12	29 545 12
Excess (deficiency) of revenues and other sources over expenditures and other uses	(40 951 00)	(40 951 00)	12 285 73	53 236 73
Fund balance, April 1	70 000 00	70 000 00	163 319 74	93 319 74
Fund Balance, March 31	29 049 00	29 049 00	175 605 47	146 556 47

CITY OF OMER
Arenac County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	20 000 00	20 000 00	20 112 71	112 71
Interest	<u>360 00</u>	<u>360 00</u>	<u>304 61</u>	<u>(55 39)</u>
Total revenues	<u>20 360 00</u>	<u>20 360 00</u>	<u>20 417 32</u>	<u>57 32</u>
Expenditures:				
Public works:				
Highways and streets	<u>36 525 00</u>	<u>36 525 00</u>	<u>17 061 24</u>	<u>(19 463 76)</u>
Total expenditures	<u>36 525 00</u>	<u>36 525 00</u>	<u>17 061 24</u>	<u>(19 463 76)</u>
Excess (deficiency) of revenues over expenditures	<u>(16 165 00)</u>	<u>(16 165 00)</u>	<u>3 356 08</u>	<u>19 521 08</u>
Other financing sources (uses):				
Operating transfers out	<u>-</u>	<u>-</u>	<u>(5 028 17)</u>	<u>(5 028 17)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(5 028 17)</u>	<u>(5 028 17)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(16 165 00)</u>	<u>(16 165 00)</u>	<u>(1 672 09)</u>	<u>14 492 91</u>
Fund balance, April 1	<u>50 000 00</u>	<u>50 000 00</u>	<u>61 399 50</u>	<u>11 399 50</u>
Fund Balance, March 31	<u><u>33 835 00</u></u>	<u><u>33 835 00</u></u>	<u><u>59 727 41</u></u>	<u><u>25 892 41</u></u>

CITY OF OMER
Arenac County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	14 000 00	14 000 00	12 937 69	(1 062 31)
Interest	150 00	150 00	167 03	17 03
Miscellaneous	<u>650 00</u>	<u>650 00</u>	<u>908 81</u>	<u>258 81</u>
Total revenues	<u>14 800 00</u>	<u>14 800 00</u>	<u>14 013 53</u>	<u>(786 47)</u>
Expenditures:				
Public works:				
Highways and streets	<u>25 920 00</u>	<u>25 920 00</u>	<u>11 921 46</u>	<u>(13 998 54)</u>
Total expenditures	<u>25 920 00</u>	<u>25 920 00</u>	<u>11 921 46</u>	<u>(13 998 54)</u>
Excess (deficiency) of revenues over expenditures	<u>(11 120 00)</u>	<u>(11 120 00)</u>	<u>2 092 07</u>	<u>13 212 07</u>
Other financing sources (uses):				
Operating transfers in	<u>-</u>	<u>-</u>	<u>5 028 17</u>	<u>5 028 17</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>5 028 17</u>	<u>5 028 17</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(11 120 00)</u>	<u>(11 120 00)</u>	<u>7 120 24</u>	<u>18 240 24</u>
Fund balance, April 1	<u>25 000 00</u>	<u>25 000 00</u>	<u>33 390 15</u>	<u>8 390 15</u>
Fund Balance, March 31	<u><u>13 880 00</u></u>	<u><u>13 880 00</u></u>	<u><u>40 510 39</u></u>	<u><u>26 630 39</u></u>

CITY OF OMER
Arenac County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
March 31, 2006

	<u>Major Street</u>	<u>Local Street</u>	<u>Services</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	56 962 22	37 217 23	15 138 04	109 317 49
Taxes receivable	-	-	2 565 00	2 565 00
Due from State of Michigan	3 686 92	2 371 43	-	6 058 35
Due from other funds	-	921 73	-	921 73
Total Assets	<u>60 649 14</u>	<u>40 510 39</u>	<u>17 703 04</u>	<u>118 862 57</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other funds	<u>921 73</u>	<u>-</u>	<u>-</u>	<u>921 73</u>
Total liabilities	<u>921 73</u>	<u>-</u>	<u>-</u>	<u>921 73</u>
Fund balances:				
Unreserved:				
Undesignated	<u>59 727 41</u>	<u>40 510 39</u>	<u>17 703 04</u>	<u>117 940 84</u>
Total fund balances	<u>59 727 41</u>	<u>40 510 39</u>	<u>17 703 04</u>	<u>117 940 84</u>
Total Liabilities and Fund Balances	<u>60 649 14</u>	<u>40 510 39</u>	<u>17 703 04</u>	<u>118 862 57</u>

CITY OF OMER
Arenac County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2006

	<u>Major Street</u>	<u>Local Street</u>	<u>Services</u>	<u>Total</u>
Revenues:				
State revenue sharing	20 112 71	12 937 69	-	33 050 40
Interest	304 61	167 03	80 36	552 00
Special assessments	-	-	14 725 00	14 725 00
Miscellaneous	-	908 81	-	908 81
Total revenues	<u>20 417 32</u>	<u>14 013 53</u>	<u>14 805 36</u>	<u>49 236 21</u>
Expenditures – Public Works:				
Highways and streets	17 061 24	11 921 46	-	28 982 70
Sanitation	-	-	16 546 23	16 546 23
Total expenditures	<u>17 061 24</u>	<u>11 921 46</u>	<u>16 546 23</u>	<u>45 528 93</u>
Excess (deficiency) of revenues over expenditures	<u>3 356 08</u>	<u>2 092 07</u>	<u>(1 740 87)</u>	<u>3 707 28</u>
Other financing sources (uses):				
Operating transfers in	-	5 028 17	-	5 028 17
Operating transfers out	(5 028 17)	-	-	(5 028 17)
Total other financing sources (uses)	<u>(5 028 17)</u>	<u>5 028 17</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(1 672 09)</u>	<u>7 120 24</u>	<u>(1 740 87)</u>	<u>3 707 28</u>
Fund balances, April 1	<u>61 399 50</u>	<u>33 390 15</u>	<u>19 443 91</u>	<u>114 233 56</u>
Fund Balances, March 31	<u>59 727 41</u>	<u>40 510 39</u>	<u>17 703 04</u>	<u>117 940 84</u>

CITY OF OMER
Arenac County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in Bank	<u>13 137 01</u>	<u>182 695 42</u>	<u>183 213 47</u>	<u>12 618 96</u>
<u>Liabilities</u>				
Due to other funds	356 26	66 540 83	65 700 87	1 196 22
Due to others	<u>12 780 75</u>	<u>116 154 59</u>	<u>117 512 60</u>	<u>11 422 74</u>
Total Liabilities	<u>13 137 01</u>	<u>182 695 42</u>	<u>183 213 47</u>	<u>12 618 96</u>

CITY OF OMER
Arenac County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended March 31, 2006

Cash in bank – beginning of year	<u>13 137 01</u>
Cash receipts:	
Property tax	182 291 08
Interest	<u>404 34</u>
Total cash receipts	<u>182 695 42</u>
Total beginning balance and cash receipts	<u>195 832 43</u>
Cash disbursements:	
City of Omer	65 700 87
Arenac County	57 159 79
Bay – Arenac Intermediate School District	19 079 16
Arenac Eastern School District	40 887 15
Refunds	<u>386 50</u>
Total cash disbursements	<u>183 213 47</u>
Cash in Bank – End of Year	<u><u>12 618 96</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

May 26, 2006

To the City Council
City of Omer
Arenac County, Michigan

We have audited the financial statements of the City of Omer, Arenac County, Michigan as of and for the year ended March 31, 2006, and have issued our report thereon dated May 26, 2006. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether City of Omer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclose no instances of non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Omer's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted an inadequate control over cash transactions caused by an inherent lack of segregation of duties which is due to the limited number of office personnel employed involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended for the information of management and other regulatory agencies. However, this report is a matter of public records and its distribution is not limited.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

May 26, 2006

To the City Council
City of Omer
Arenac County, Michigan

We have audited the financial statements of the City of Omer for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the City of Omer in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the City Council
City of Omer
Arenac County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the City's financial statements and this communication of these matters does not affect our report on the City's financial statements, dated March 31, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants